Audit Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE BUSINESS OPERATIONS FUND-
COMMUNICATION INFORMATION SERVICES ACTIVITY
FINANCIAL STATEMENTS FOR FY 1992**

Report No. 93-153 August 6, 1993

Department of Defense

Acronyms

DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
FMFIA	Federal Managers' Financial Integrity Act
OMB	Office of Management and Budget

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

August 6, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Audit Report on the Defense Business Operations Fund-Communication Information Services Activity Financial Statements for FY 1992 (Report No. 93-153)

We are providing this final report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. The Inspector General renders an opinion on the fairness of the financial statements of the Defense Business Operations Fund-Communication Information Services Activity (the Fund) in accordance with Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, and generally accepted accounting principles. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

The audit determined that, except for scope limitations discussed in Part I of the report and noncompliance with laws and regulations detailed in Part III, the Principal Statements, including the Notes to the Principal Statements, present fairly, in all material respects, the financial position of the Fund as of September 30, 1992, and the results of its operations and changes in net position, cash flows, and budget and actual expenses for the year then ended, in accordance with OMB Bulletin No. 93-06 and generally accepted accounting principles.

The audit disclosed internal control weaknesses for transactions that materially affected the Fund's FY 1992 Principal Statements. The control weaknesses related to the accuracy and classification of accounts payable. Fund officials corrected the FY 1992 Statements and implemented or planned actions that, in our opinion, will correct the underlying causes of the control weaknesses. The internal control weaknesses and corrective actions are discussed in Part II of the report.

The Fund was not in compliance with laws and regulations concerning classification of changes to net position, requirements on Statement of Budget and Actual Expenses reporting, and Footnote Disclosures. As a result, the Fund misclassified \$88.8 million on the Statement of Operations and Changes in Net Position, overstated total actual expenses by \$131.3 million on the Statement of Budget and Actual Expenses, and did not fully disclose information that may be critical to decision making. The noncompliance with laws and regulations is detailed in Part III of the report.

We recommended accounting adjustments totaling $76.8 million that were made during the audit and are included on the FY 1992 financial statements. The adjustments decreased cash, increased accounts payable, and decreased net position. This report contains no recommendations that are subject to resolution in accordance with DoD 7650.3, and accordingly, written comments are not required.

The courtesies extended to the audit staff are appreciated. Mr. Ronald Boothe, Defense Finance and Accounting Service, and Mr. Dennis Burns, Defense Information Systems Agency, provided valuable assistance to the audit team in analyzing the financial statements. If you have any questions on this audit, please contact Ms. Mary Lu Ugone at (703) 692-3320 (DSN 222-3320) or Mr. John M. Donnelly at (703) 692-2899 (DSN 222-2899). The distribution of this report is listed in Appendix C, Part IV.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-153 (Project No. 2RE-2015)

August 6, 1993

DEFENSE BUSINESS OPERATIONS FUND-COMMUNICATIONS INFORMATION SERVICES ACTIVITY FINANCIAL STATEMENTS FOR FY 1992

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of funds, such as the Defense Business Operations Fund-Communications Information Services Activity (the Fund). The Fund operates as a "commercial-like" not for profit corporation with an annual operating budget and a board of directors, known as the Fund Resource Management Committee. The Fund, through its operational arm, the Defense Commercial Communications Office, provides its customers with various telecommunication products and services. In FY 1992, the Fund had sales of $1.27 billion and a net operating profit of $39.3 million.

Objectives. The audit objective was to determine whether the FY 1992 financial statements for the Fund were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the Fund and assessed compliance with laws and regulations that could have a material effect on the financial statements. We also determined the reliability and usefulness of financial information reported to the Office of Management and Budget, Department of Treasury, the DoD, and Fund management.

Independent Auditor's Opinion. In our opinion, except for scope limitations discussed in Part I of the report and noncompliance with laws and regulations discussed in Part III, the Principal Statements, including the Notes to the Principal Statements, present fairly, in all material respects, the financial position of the Fund as of September 30, 1992, and the results of its operations and changes in net position, cash flows and budget, and actual expenses for the year then ended, in accordance with Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, and generally accepted accounting principles.

Internal Controls. The audit disclosed internal control weaknesses for transactions and events that had a direct and material effect on the Principal Statements. Internal controls did not ensure the accuracy and proper classification of accounts payable. Fund officials corrected the FY 1992 statements and implemented or planned actions that, in our opinion, will correct the underlying causes of the weaknesses. The internal control weaknesses and corrective actions are discussed in Part II of our report.

Compliance with Laws and Regulations. The results of our tests of compliance disclosed material noncompliance, the effects of which have not been corrected in the Fund's FY 1992 Principal Statements. The Fund was not in compliance with laws and regulations concerning classification of changes to net position, requirements on Statement of Budget and Actual Expenses reporting, and Footnote Disclosures. As a result, the Fund misclassified $88.8 million on the Statement of Operations and

Changes in Net Position, overstated total actual expenses by $131.3 million on the Statement of Budget and Actual Expenses, and did not fully disclose information that may be critical to decision making. The noncompliance with laws and regulations is detailed in Part III of this report.

Management Comments. On May 12, 1993, we provided written audit results to Defense Information Systems Agency (DISA) and Defense Finance and Accounting Service (DFAS) officials and requested them to provide written comments on those audit results. DISA and DFAS officials provided us written comments that were considered in preparing Parts II and III of this report. Comments on this final report are not required because the report contains no recommendations and identifies no monetary benefits.

Table of Contents

This report was prepared by the Readiness and Operational Support Directorate, Office of the Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Independent Auditor's Opinion on the Financial Statements

Introduction

The Defense Business Operations Fund-Communications Information Services Activity (formerly the Department of Defense Industrial Fund-Communications Services Activity), established in 1965, is located at Scott Air Force Base, Illinois. The Defense Business Operations Fund-Communications Information Services Activity (the Fund) provides finance and operations support for the Defense Commercial Communications Office that is also located at Scott Air Force Base, Illinois. The Fund employs about 300 people and provides customers with high-quality telecommunications services, such as automated data processing, voice data, and video teleconferencing services. It is responsible for more than 89,000 contracts valued at $1.2 billion per year.

The Fund operates under the oversight of the Defense Information Systems Agency (DISA). On April 18, 1993, finance and accounting operations for the Fund were transferred to the Defense Finance and Accounting Service, Denver Center.

We have audited the Principal Statements and related Notes to the Principal Statements for the Fund as of and for the year ended September 30, 1992. Those Statements are the responsibility of Fund management. Our responsibility is to express an opinion on those Statements based on our audit.

Scope

This financial statement audit of the Fund was made from May 1992 through June 1993 at Scott Air Force Base, Illinois. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements, including the Notes thereto. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Limitations of Scope. We were unable to examine sufficient evidence supporting two accounting adjustments to the financial statements. The amounts concerned a $57 million yearend adjustment that increased operating expenses and accounts payable and a $59 million yearend adjustment that increased equity. The Fund was unable to provide detailed support for the adjustments. In addition, we were unable to perform sufficient alternative substantive auditing procedures to determine the accuracy and fairness of the two adjustments.

During FY 1992, the Fund was in the process of correcting a material internal control weakness concerning control of Communications Equipment at Remote Locations. The Fund, under contract with a major accounting firm, inventoried and estimated the monetary worth of the communications equipment, reconciled inventory records, and established written reconciliation and updating

procedures. However, capital asset accounting and acquisition control techniques were not fully in place in FY 1992; therefore, we did not test internal controls over capital assets.

Auditing Standards. We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements and related Notes to the Principal Statements are free of material misstatement.

Accounting Principles. Accounting principles are being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-06. The summary of significant policies included in the Notes to the Principal Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Fund's significant assets, liabilities, net position, results of operations, cash flow, and reconciliation to the budget.

Opinion

In our opinion, except for the effects of the scope limitations discussed above and the noncompliance with laws and regulations discussed in Part III of this report, the Principal Statements, including the Notes to the Principal Statements present fairly, in all material respects, the financial position of the Fund as of September 30, 1992, and results of operations and changes in net position, cash flow, and budget and actual expenses for the year then ended, in accordance with the OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, and subsequent issuances or generally accepted accounting principles, as applicable.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the Fund's Principal Statements. We have reviewed the financial information presented in management's Overview of the Fund included in Part V of this report. The information in the Overview is presented for the purpose of additional analysis. We have not audited this information and, accordingly, we do not express an opinion on the information.

We issued three management letters during the audit and an audit report. The first management letter, February 1, 1993, requested that Fund officials provide the IG, DoD, the status of FY 1991 audit recommended accounting adjustments

of $112 million. The management letter was needed because the FY 1991 audit recommended accounting adjustments, as agreed to by the Deputy Chief Financial Officer on June 26, 1992 and made to the FY 1991 financial statements, had not been recorded in the official accounting records maintained by the Fund. The net effect of not recording the adjustments was that the FY 1992 beginning general ledger balances for total assets and total liabilities were overstated by $26.0 million and $49.2 million, respectively.

The Fund reply, March 3, 1993, was nonresponsive because it did not specify which recommended FY 1991 accounting adjustments had been or would be recorded in the general ledger. Since the reply was nonresponsive, we performed extensive alternative auditing procedures in March and April 1993 to ensure that those recommended accounting adjustments that were still required had been recorded. Additionally, in June 1993, we met with the DISA Special Assistant to the Comptroller to provide assistance in reconciling those recommended accounting adjustments recorded by the Fund with records maintained by DISA. The failure to record in a timely manner the recommended accounting adjustments in the Fund's general ledger and the lack of specific information regarding the status of those FY 1991 adjustments encumbered efforts to audit the FY 1992 financial statements.

On February 11, 1993, we issued a management letter requesting that Fund officials provide rationale for 22 FY 1992 yearend accounting adjustments, totaling $325.6 million, recorded by the Fund, but not disclosed to the audit team until February 1993. On March 2, 1993, the Fund provided rationale for the 22 adjustments. However, the rationale for two adjustments totaling $195.5 million was insufficient and, therefore, on March 24, 1993, we issued a management letter requesting additional information on the two accounting adjustments. On April 5, 1993, the Fund provided comments that were nonresponsive; therefore, we performed additional auditing procedures for the two adjustments and determined that the Fund did not have specific documentation supporting one accounting adjustment of $57 million to accounts payable. We were unable to form an opinion as to the accuracy and propriety of the $57 million adjustment to accounts payable discussed in the "Limitation of Scope" paragraph above.

On July 26, 1993, we issued a report (Report No. 93-151) that discussed the Defense Commercial Communications Office's noncompliances with the Federal Managers' Financial Integrity Act of 1982. The DISA implemented corrective actions during the audit to correct the noncompliances.

Copies of the three management letters and the Fund's responses to the management letters are in Part VI of this report.

Part II - Internal Controls

Introduction

We audited the internal control structure of the Defense Business Operations Fund-Communications Information Services Activity (the Fund) for the year ended September 30, 1992. Management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to Fund operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over assets.

Objectives and Scope

The objective of our audit was to determine whether material internal control weaknesses existed. In planning and performing our audit of the Principal Statements of the Fund for the year ended September 30, 1992, we evaluated the related internal control structure. The purposes of that evaluation were to determine our auditing procedures for expressing our opinion on the Fund accounts and to determine whether the internal control structure met the objective identified in the preceding paragraph. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that have been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories.

o Cash - policies and procedures associated with the recording and reporting of cash collections and disbursements.

o Disbursements - policies and procedures associated with the recording and reporting of obligations, liabilities and their related expenses.

o Revenue - policies and procedures associated with the recording and reporting of receivables and revenues.

o Payroll - policies and procedures associated with the recording and reporting of payroll and payroll taxes and the maintenance of personnel records.

o Equity - policies and procedures associated with the recording and reporting of changes in equity.

o Financial reporting - policies and procedures used to prepare financial statements.

Our consideration of the internal control structure included all the categories listed above.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and OMB Bulletin No. 93-06. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements. We applied those standards to the financial statements of the Fund.

Prior Audit Coverage

IG, DoD, Audit Report No. 92-121, "Report on the Defense Industrial Fund-Communications Services Activity Financial Statements For FY 1991," June 30, 1992, concluded that there were internal control weaknesses regarding proper classification of accounting transactions, identification of assets under capital lease, write off of assets, and unrecorded depreciation. The report stated that none of the weaknesses was considered material and that management had initiated corrective actions.

Results of Audit

Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. However, corrective actions taken or planned, in our opinion, will correct the underlying causes of the weaknesses.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the Comptroller General and OMB Bulletin No. 93-06.

Reportable conditions are matters that come to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in that the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities would occur. Such errors would be material in relation to the statements being audited, or material to a performance measure or aggregation of related performance measures, and may not be detected within a timely period by employees in the normal course of performing their assigned functions. Except for the matters noted below, we believe there is reasonable assurance that the control structure meets the internal control objective.

Accuracy and Classification of Accounts Payable. Internal controls did not ensure the accuracy and proper classification of accounts payable. During FY 1992, Fund accounting personnel identified an out-of-balance condition between accounts payable subsidiary ledgers and control accounts and a misclassification of accounts payable. An inherent weakness in the Fund's accounting system caused the out-of-balance condition between subsidiary ledgers and control accounts. Fund accounting personnel made an accounting adjustment at the end of FY 1992, increasing accounts payable by $57 million to correct the condition. The Fund Comptroller stated that an enhanced software program associated with an upgraded accounting system to be fully implemented in FY 1993 will ensure monthly reconciliations between the subsidiary ledgers and control accounts, thus preventing a recurrence of an out-of-balance condition. Fund officials were unable to provide documented support for the $57 million adjustment.

The misclassification of accounts payable was caused by DISA program managers providing inaccurate information to the accounting branch. The program managers reported that DoD and other Government agencies were contractual vendors, although the contractual documents showed that commercial vendors provided the services. The Fund made an accounting adjustment of $138 million to correctly classify Government accounts payable as commercial accounts payable. To prevent further misclassification of accounts payable, the Fund implemented procedures in FY 1993 to review contractual documents before entries were made into the accounting records.

Accounting controls were not sufficient to ensure the accuracy of accounting transactions relating to procurement transactions for Military Interdepartmental Purchase Requests. As a result, the accounts payable balance was understated by $3.6 million. The Fund Comptroller stated that controls associated with its upgraded accounting system, implemented in FY 1993, will ensure that procurement funds received will be treated as operating income and that associated expenditures will be charged to operations.

The Fund Comptroller told us that internal control techniques were implemented to correct the weaknesses, and the DISA Internal Control Focal Point told us that the DISA may report detection and correction of the internal control weaknesses in its FY 1993 Annual Statement of Assurance. We will verify the adequacy of the internal control techniques during the next financial statement audit.

Part III - Compliance with Laws and Regulations

Introduction

We audited the Principal Statements of the Defense Business Operations Fund-Communications Information Systems Activity (the Fund) of the Defense Business Operations Fund for the year ended September 30, 1992. We tested the Fund for material instances of noncompliance with laws and regulations for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

Objectives and Scope

The objective of our audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements or violations of prohibitions in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements, or the sensitivity of the matter would cause it to be perceived as significant by others. We considered these instances of noncompliance material in forming our opinion on whether the Principal Statements are presented fairly, in all material respects, in conformity with the applicable accounting standards now in effect for the preparation of the entity's financial statements.

Compliance with laws and regulations applicable to the Fund is the responsibility of management. As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the statements. We also tested certain other laws and regulations designated by OMB and DoD (see Part IV, Appendix A). As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared the audited entity's most recent FMFIA reports with our evaluation of the internal control system. We also reviewed and tested the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the overview of the Fund. However, our objective was not to provide an opinion on overall compliance with such provisions.

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Principal Statements are free of material misstatements.

Prior Audit Coverage

IG, DoD, Audit Report No. 92-121, "Report on the Defense Industrial Fund-Communications Services Activity Financial Statements For FY 1991," June 30, 1992, concluded that there were instances of material noncompliance with the DoD Accounting Manual and Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies" regarding accounting for orders for goods and services and recording assets as capital leases. The report stated that ongoing actions by management should ensure compliance with laws and regulations.

IG, DoD, Audit Report No. 89-015, "Report on the Fiscal Year 1988 Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982 at the Defense Communications Agency," October 21, 1988, concluded that the Defense Communications Agency's accounting system evaluation and reporting process at the Communications Services Industrial Fund was in compliance with the FMFIA. However, the FY 1988 evaluation did not include an analysis of the internal management program results or the efficiency and effectiveness of the procedures used in the implementation of the FMFIA.

Results of Audit

The results of our tests of compliance disclosed the following instances of noncompliance, the effects of which have not been corrected in the Fund's FY 1992 Principal Statements.

Footnote Disclosures. Footnote disclosures were not in compliance with DoD guidance, "Form and Content of Financial Statements For FY 1992 Financial Activity," October 28, 1992 and, therefore, may cause erroneous conclusions or decisions by readers relying on the financial statements.

Footnote 5. Footnote 5 is incomplete because it does not disclose the depreciation method, range of service life, and net book value for each major category of capital assets. The line item amounts primarily include automatic data processing equipment.

Footnote 10. Footnote 10 is incomplete because it does not disclose the lease arrangements, asset category, or lease payments due in current and future years for each lease. The footnote is improperly referenced on line 5.b., "Unfunded-Lease Liabilities," on the Statement of Financial Position because the lease liability is funded. In addition, the lease liability is omitted from the Statement of Financial Position, causing the Statement to be clerically inaccurate.

Footnote 11. Footnote 11 is misleading because it suggests that the Fund had a beginning equity balance.

Footnote 13. Footnote 13 is incomplete because it does not disclose the nature and amount of program and operating expenses. The Fund acknowledged that the itemized information for program and operating expenses was readily available but did not disclose the information because the Fund believed that the information was proprietary.

Footnote 14. Footnote 14 is incomplete because it does not fully disclose the nature and amount of material transactions supporting prior period adjustments.

We reviewed the underlying transactions and discussed line 17.b. with the DISA Special Assistant of the Comptroller and with the DFAS Project Manager for Chief Financial Officers Act Reporting. Based on the review and discussions, $4,054,507 of line item 17.b. should have been classified as "Extraordinary Items" on line 17.a. of the Statement of Operations and Changes in Net Position, because the transactions relate to FY 1992, not prior periods. Also, $84,741,465 of line item 17.b. should have been reported on line 23 of the Statement of Operations and Changes in Net Position, because the transactions were equity adjustments that relate to FY 1991 audit adjustments reported in FY 1991, but not recorded until FY 1992. A schedule supporting the reclassifications was provided to the Fund on June 3, 1993.

Statement of Budget and Actual Expenses. The Statement of Budget and Actual Expenses was not in compliance with DoD guidance, "Form and Content of Financial Statements For FY 1992 Financial Activity," October 28, 1992, because the "Total Expenses" reported were $131,323,193 greater than "Total Expenses" reported on line 15 of the Statement of Operations and Changes in Net Position. The budget statement should have reported $1,230,831,970 as "Total Expenses" and $0 as "Other Unfunded Expenses." However, $130,696,819 was reported as "Other Unfunded Expenses" to offset the overstatement of "Total Expenses" and to reconcile to the Report on Budget Execution (Form DD-1176).

FMFIA. The Fund did not fully comply with the FMFIA, Public Law 97-255, as implemented in OMB Circular A-123, "Internal Control Systems," August 4, 1986, and in revised DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The noncompliances related to FMFIA performance standards, training, risk assessments, and testing. During the audit, the Fund planned or implemented actions to correct the conditions. The actions will ensure full implementation of Public Law 97-255.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Fund complied, in all material respects, with the provisions referred to in the second paragraph of the "Objectives and Scope" section of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Fund had not complied, in all material respects, with those provisions.

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Part IV - Additional Information

Appendix A. Laws and Regulations

Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, as implemented by OMB Circular A-123, "Internal Control Systems," August 4, 1986, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.

Prompt Payment Act of 1988, Public Law 100-496, as implemented by OMB Circular A-125, "Prompt Payment," December 12, 1989.

Chief Financial Officers Act of 1990, Public Law 101-576.

OMB Bulletin 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, as implemented by DoD guidance, "Form and Content of Financial Statements For FY 1992 Financial Activity," October 28, 1992.

OMB Bulletin No. 93-06 "Audit Requirements for Federal Financial Statements," January 8, 1993.

Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," as implemented by DoD Manual 7220.9-M, "DoD Accounting Manual."

Appendix B. Organizations Visited or Contacted

Department of the Air Force

Air Force Audit Agency, Washington, DC

Defense Agencies

Defense Finance and Accounting Service-Washington Center, Washington, DC
Defense Information Systems Agency, Washington, DC
   Defense Commercial Communications Office, Scott Air Force Base, IL

Appendix C. Report Distribution

Office of the Secretary of Defense

Secretary of Defense
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
Comptroller and Chief Financial Officer of the Department of Defense
  Deputy Chief Financial Officer of the Department of Defense
Assistant to the Secretary of Defense for Public Affairs

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, U.S. Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Commercial Communications Office
Director, Defense Intelligence Agency
Inspector General, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs Division, Technical Information Center
Accounting and Financial Management Division

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Permanent Select Committee on Intelligence
House Subcommittee on Oversight and Evaluation, Permanent Select Committee on Intelligence

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Part V - Financial Statements

DEFENSE INFORMATION SYSTEMS AGENCY DEFENSE BUSINESS OPERATIONS FUND INFORMATION SERVICES

FINANCIAL STATEMENTS

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Financial Position
as of September 30, 1992
(Dollars)

ASSETS	1992
1. **Financial Resources:** (Note 1)	
a. Fund Balances with Treasury (Note 2)	$84,331,844
b. Cash	
c. Foreign Currency	
d. Other Monetary Assets	
e. Investments, Non-Federal	
f. Accounts Receivable, Net - Non-Federal	559,227
g. Inventories Held for Sale, Net	
h. Loans Receivable, Net - Non-Federal	
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale	
k. Other, Non-Federal	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal (Note 3)	283,370,296
(2) Loans Receivable, Federal	
(3) Investments, Federal	
(4) Other, Federal (Note 4)	2,543,801
m. **Total Financial Resources**	$370,805,168
2. **Non-Financial Resources:** (Note 5)	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale	
c. Property, Plant and Equipment, Net	9,732,071
d. Other	14,803,428
e. **Total Non-Financial Resources**	$24,535,499
3. **Total Assets**	$395,340,667
LIABILITIES	
4 **Funded Liabilities**	
a. Accounts Payable, Non-Federal (Note 6)	306,218,818
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits (Note 7)	7,856,796
d. Accrued Entilement Benefits	
e. Lease Liabilities	
f. Debt	
g. Guarantees Payable	
h. Other Funded Liabilities, Non-Federal (Note 8)	13,800,000

The accompanying notes are an integral part of these statements.

V-5-1-4 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Financial Position
as of September 30, 1992
(Dollars)

	1992
LIABILITIES Continued	
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal (Note 6)	$6,334,380
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities, Federal	
j. **Total Funded Liabilities**	$334,883,587
5. **Unfunded Liabilities:**	
a. Accrued Leave (Note 9)	
b. Lease Liabilities (Note 10)	
c. Pensions and Other Actuarial Liabilities	
d. Other Unfunded Liabilities	
e. **Total Unfunded Liabilities**	
6. TOTAL LIABILITIES	$334,883,587
NET POSITION	
7. **Fund Balances:**	
a. Revolving Fund Balances (Note 11)	60,457,080
b. Trust Fund Balances	
c Appropriated Fund Balances	
d. Transfer In of Capital Assets (Note 11)	
e. **Total Fund Balances**	$60,457,080
8. **Less Future Funding Requirements (Note 11)**	
9. **Net Position**	$60,457,080
10. **Total Liabilities and Net Position**	$395,340,667

The accompanying notes are an integral part of these statements.

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

REVENUES AND FINANCING SOURCES (Note 12)	1992
1. Appropriations Expensed	
2. Revenues from Sales of Goods	
a. To the Public	$917,655
b. Intragovernmental	1,269,186,779
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes	
6. Other Revenues and Financing Sources	
7. Less: Taxes and Receipts Returned to the Treasury	
8. **Total Revenues and Financing Sources**	$1,270,104,434
EXPENSES (Note 13)	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	1,200,884,571
10. Program or Operation Expenses	24,244,482
11. Depreciation	5,638,268
12. Bad Debts and Write-offs	
13. Interest	64,649
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses	
15. **Total Expenses**	$1,230,831,970
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	39,272,464
17. Plus (Minus) Adjustments:	
a. Extraordinary Items	
b. Prior Period Adjustments (Note 14)	(131,323,193)
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	($92,050,729)
19. Plus: Unfunded Expenses	5,638,268
20. **Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses**	($86,412,461)

The accompanying notes are an integral part of these statements.

V-5-1-6 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

EXPENSES Continued	1992
21. Net Position, Beginning Balance	
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($92,050,729)
23. Plus (Minus) Equity Transfers (Note 11)	152,507,809
24. **Net Position, Ending Balance**	$60,457,080

The accompanying notes are an integral part of these statements.

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

Cash Flows from Operating Activities:	**1992**
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($92,050,729)
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	
3. Decrease (Increase) in Accounts Receivable	13,792,043
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	7,889,424
6. Increase (Decrease) in Accounts Payable	179,006,782
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	(29,943,944)
9. Depreciation and Amortization	5,638,268
10. Other Unfunded Expenses	
11. Other Adjustments	
12. **Total Adjustments**	$176,382,573
13. **Net Cash Provided (Used) by Operating Activities**	$84,331,844
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	
18 **Net Cash Provided (Used) by Non-Operating Activities**	
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	
22. Net Appropriations	

The accompanying notes are an integral part of these statements.

V-5-1-8 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	$84,331,844
30. **Fund Balance with Treasury, Cash, and Foreign Currency, Beginning**	
31. **Fund Balance with Treasury, Cash, and Foreign Currency, Ending**	$84,331,844

The accompanying notes are an integral part of these statements.

Department/Agency: Department of Defense
Reporting Entity: Defense Information Systems Agency DBOF- Information Services Area
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1992
(Dollars)

Program Name (s)	BUDGET Resources	BUDGET Obligations Direct	BUDGET Obligations Reimbursed	ACTUAL Expenses
DBOF-CISA	$1,420,637,290		$1,269,072,793	$1,362,155,163
Totals	$1,420,637,290		$1,269,072,793	$1,362,155,163

Budget Reconciliation

A. Total Expenses	$1,362,155,163
B. Add:	
(1) Capital Acquisitions	
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	5,638,268
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	130,696,819
D. Expended Appropriations	$1,225,820,076
E. Less Reimbursements	1,269,072,793
F. Expended Appropriations, Direct	($43,252,717)

The accompanying notes are an integral part of these statements.

DEFENSE INFORMATION SERVICES AGENCY DEFENSE BUSINESS OPERATIONS FUND INFORMATION SERVICES

FOOTNOTES

DEFENSE INFORMATION SERICES AGENCY DEFENSE BUSINESS OPERATIONS FUND INFORMATION SERVICES FOOTNOTES

Note 1. Significant Accounting Policies

DBOF-CISA follows commercial accrual accounting practices and procedures. Under the commercial accrual accounting method, DBOF-CISA revenues are recognized when earned and expenses are recognized when a liability is incurred (i.e., a product or service is received and accepted) without regard to receipt of an invoice or payment of cash. DBOF-CISA incorporates commercial accounting practices which recognize fixed asset depreciation (expense), amortization and capital lease (or equalivalent) values. The DBOF-CISA also is required to maintain financial information in a format similar to that maintained by a telecommunications "common" carrier under the Federal Communications Act. DBOF-CISA management follows budgetary procedures which directly tie and monitor allowed operating expenses to revenue. Also, DBOF-CISA obtains over twenty-eight percent of its revenue from non-DoD customers and provides financial information in accordance with the accounting practices and procedures required by these entities in an accrual accounting format. Specific policies and accounting guidance followed by the DBOF-CISA are contained in:

a. Chief Financial Officer's Act and Office of Management and Budget (EXOP/OMB) Implementation Instructions.

b. GAO's Policy and Procedures Manual for Guidance of Federal Agencies Title 2 Accounting.

c. AICPA/FASB/FAASB/GASB Accounting Standards.

d. DoD(C) Accounting Manual, Chapter 82 Revolving Funds.

e. DoD(C) Letter, Subject: Defense Business Operations Fund Financial Policy, dated 27 September 1991.

f. OASD(C) Letter, Subject: Funding for Prior Year Adjustments to the Defense Commercial Communications Office (DECCO), dated 29 April 1982.

g. DCA Policy Letter, Subject: Extension of Rate Stabilization in Communications Services Industrial Fund (CSIF), dated 22 June 1982.

V-5-1-14 Footnotes

Note 2. Assets - Fund Balance with Treasury:

The Treasury cycles at DBOF-CISA are comprised of two functions consisting of customer billing/collection and disbursement of funds. As of 30 September 1992, DBOF-CISA reported a fund balance (per SF-1176) made up of the following:

Collections FY 1992	$1,289,027,793
Disbursements FY 1992	1,204,695,949
Total	$84,331,844

As of September 1992, DBOF-CISA Treasury reported fund balance consisted of the following:

A. Fund Balances with Treasury	
(1) Trust Funds	
(2) Revolving (Operating) Funds	$84,331,844
(3) Appropriated Funds	
(4) Other Fund Types	
Total	$84,331,844
B. Cash:	
(1) Restricted Cash	
(a) Reserve Engineering Change Proposal (ECP) Europe ECP-28*	$10,068,832
(b) Reserve Defense Mediterranean Improvement Program (DMIP)**	39,165,381
(c) Reserve For Rate Stabilization	8,339,807
(2) Unrestricted Cash	26,757,824
Total	$84,331,844
C. Foreign Currency	
Total	$84,331,844

NOTE:

* The Federal Republic of Germany is providing ECP-28 in the total amount of $50,000,000. DM with the remaining unbilled amount of $10,068,832. for telecommunications command and control switch operational software that has not been accepted by the Program Manager (the United States Army) and DISA.

** The DMIP contract is awaiting billing from the Republic of Turkey in the amount of $39,165,381.

Collections of cash have been made from customers for all Restricted Cash items in accord with published DBOF-CISA Rate policies. Payment for both liabilities is expected to be made in Fiscal Year 1993.

Note 3. Assets - Accounts Receivable:

As presented in the financial statements, accounts receivable represent reimbursement due for service rendered from both public and private sector concerns. For DoD Departments and Agencies, reimbursement is done electronically through the DoD SF-1080 cross-disbursement system with TUS. The non-DoD public sector customers and Private sector customers are collected by check. Accounts Receivable balance as of 30 September 1992 was $283,929,523. The DBOF-CISA follows accrual accounting practices and procedures as outlined in the U.S.C. Title 2 in recording Accounts Receivable.

Note 4. Assets - Intergovernmental Item - Other, Federal:

This account represents the amount advanced to the GSA Information Technology Revolving Fund for services to be rendered under the GSA FTS2000 program.

Note 5. Non-Financial Resources:

A full physical inventory including world-wide deployed assets was completed during Fiscal Year (FY) 1992 to clear the identified FY 1990 "Material Weakness". All equipment was valued and depreciated in accordance with (IAW) appropriate accounting policy. Capital assets on the financial statement comprises the following:

	COST	ACC/DEPR	BOOK VALUE
a. Tools/Equip	$154,523	$29,788	
b. Equip Pur	9,135,011	6,095,416	
c. Equipment Contributed	50,129,937	43,562,198	
d. * Capital Leases	1,500,012	975,000	
e. ** Assets In Progress	14,278,416		
Total	$75,197,899	$50,662,402	$24,535,499

Note:

* Capital Leases. A review was completed during FY 92 of all outstanding contracts under FASB Statement 13. Based upon completion of this review and validation only one contract was identified as fitting the requirements of FASB 13 and this contract is represented in this account.

V-5-1-16 Footnotes

** Assets in Progress. ECP 28 ($10,068,832) and the DBOF-CISA accounting system modifications account for the balance in this account.

Depreciation was computed in accordance with the DoD(C) Letter, subject: Defense Business Operations Fund Financial Policy, dated 27 September 1991.

Note 6. Funded Liabilities - Accounts Payable, Non-Federal and Federal:

As presented in the financial statements, accounts payable represents the amount due public and private sector concerns for services, materials and supplies. Outstanding accounts payable as of 30 September 1992 was $306,218,818 for non-Federal and $6,334,380 for Federal, for a total of $312,553,198. The DBOF-CISA follows accrual accounting practices and procedures in recording accounts payable.

Note 7. Funded Liabilities - Accrued Payroll and Benefits:

The outstanding balance represents accrued unpaid amounts of salaries and wages due to civilian employees for work performed and/or benefits accrued, i.e., leave accumulated. The balance in accrued payroll as of 30 September 1992 was $2,849,224. Accrued payroll applicable to initial activity capitalization has been fully retired.

Note 8. Funded Liabilities - Other Funded Liabilities, Non-Federal:

The $13.8 million balance represents a possible termination liability in the Philippines as a result of USCINCPACREP Philippines request for action to be taken to deactivate the two T-1 links to Cubi Point and to deinstall the earth terminal at Cubi Point. In compliance with official direction the two links were deactivated on 2 November 1992 with deinstallation of the earth terminal to be completed by 7 November 1992. This is a "best estimate" and will be refined and settled during FY 1993.

Note 9. Unfunded Liabilities - Accrued Leave:

Accrued Annual Leave: Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balance in annual leave represents the unused accrued leave as of 30 September 1992 was $1,125,302 Accrued annual leave applicable to initial activity capitalization has been fully retired.

Accrued Sick Leave: The accrued value of civilian earned but not used sick leave is represented by this accounts accrued value. The balance in accrued sick leave as of 30 September 1992 was $3,882,270. Accrued sick leave applicable to initial activity capitalization has been fully retired.

Note 10. Unfunded Liabilities - Lease Liabilities:

The current and long-term maturities of capital lease relate to the lease identified under the review for FASB Stmt. 13, (see comments under Capital Assets above).

Note 11. Net Position - DBOF-CISA Revolving Fund Balance:

The DBOF-CISA Net Worth is segmented into four parts: (1) initial capitalization; (2) initial liabilities assumed; (3) Fixed Assets Purchased or Contributed; (4) Net Accumulated Operating Results (i.e., net profit or loss) of the activity from inception to the end of the current fiscal year. In accordance with Comptroller Of The Department Of Defense (DoD(C)) CFO guidance, all equity assets as of 30 September 1991 were transferred to the equity balance of the DoD Defense Business Operations Fund (DBOF). The transfer to DBOF also included closing Fund Balance with Treasury for Fiscal Year 1991. The respective balances as of September 30, 1992 are:

Transfer Of Equity To DBOF 1 October 1991:

Appropriated Capital	$51,216,219.45
Less: Liabilities Assumed	107,059.34
Purchased Fixed Assets	22,797,873.97
Contributed Fixed Assets	47,780,212.85
Accumulated Net Operating Results	77,236,641.53
Total	$199,138,007.14
Ending Fund Balance with Treasury Transferred To DBOF	$46,644,057.00

Transfer Of Equity From DBOF 1 October 1991:

Purchased Fixed Assets	$22,797,873.97
Contributed Fixed Assets	47,780,212.85
Other Capitalization Transferred	81,929,722.18
Total	$152,507,809.00

V-5-1-18 Footnotes

Ending Net Equity Balance As Of 30 September 1992:

Purchased Fixed Assets	$22,797,873.97	
Less: Independent Audit Adjustment	(19,633,541.97)	
Net Purchased Fixed Assets (After Audit Adjustment)		$3,164,332.00
Contributed Fixed Assets	47,780,212.85	
Less: Independent Audit Adjustment	(41,212,473.85)	
Net Contributed Fixed Assets (After Audit Adjustment)		$6,567,739.00
Other Capitalization Transferred	81,929,722.18	
Less: Other Prior Period Adjustments	(70,477.177.18)	
Net Operating Results FY 1992	39,272,464.00	
Total		$50,724,009.00
Total		$60,457,080.00

Note 12. Revenues:

The DBOF-CISA presently provides products and services directly to the customers and through services provided to it by the Defense Information Systems Agency, Defense Network Systems Organization which are then provided to the end user by the DBOF-CISA. The range of products and services offered to Federal government Departments and Agencies are as follows:

a. Direct Telecommunications Support (60% of sales)

(1) Voice transmission resources,
(2) Voice switch assets,
(3) Voice origination/termination equipment assets,
(4) Data transmission resources,
(5) Data switch assets
(6) Data origination/termination equipment assets,
(7) Video transmission assets,
(8) Video switch assets,
(9) Video origination/termination equipment assets,
(10) Voice/Data/Video security and encryption assets.

b. Direct Telecommunications Support through the DISA-managed Defense Communications System (DCS) (40% of sales). Bulk purchased and resold services through establishment of bulk resource "common-user" systems which provide, at a pre-published subscriber product/service cost recovery rate, the same types of services as cited in "a" above.

c. ADP Hardware and Software Acquisition. Hardware (large, mid-range, small, personal computer, etc.) software (operating and application modules and systems).

Note 13. Expenses:

Expenses reflect cost of goods sold, DECCO and Revolving Fund Division operating costs, and depreciation and interest expense. Cost of goods sold reflects the costs of products and services explained in Note 12. Organizational costs are those associated with the DBOF-CISA, only. The depreciation expense is the current year cost recovery portion of the value of installed capital assets (installed prior to FY 1992 and during FY 1992).

Note 14. Significant Prior Year Adjustments:

As a result of DBOF-CISA capital asset physical inventory (see paragraph A, 5, a. of Section I, Overview of Reporting Entity), capital asset values and prior year depreciation expense were restated.

Part VI - Other Issuances Related to this Audit

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

FEB 1 1993

MEMORANDUM FOR DIRECTOR, DEFENSE COMMERCIAL COMMUNICATIONS OFFICE

SUBJECT: Accounting Adjustments to FY 1991 Financial Statements for the Defense Business Operations Fund, Communications Information Services Activity (Project No. 2RE-2015)

This memorandum addresses issues that, if not corrected, could impair the ability of the Defense Business Operations Fund, Communication Information Services Activity (previously the "Defense Industrial Fund-Communications Services Activity") to prepare accurate and complete FY 1992 financial statements as required by Office of Management and Budget Bulletin Number 91-15; the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies" (Title 2); and the "DoD Accounting Manual" (DoD Manual 7220.9-M). This memorandum is not an audit report and is not subject to the provisions of DoD Directive 7650.3. It is being provided as an opportunity to correct conditions noted and mitigate their impact on the FY 1992 financial statements.

Background. The Defense Commercial Communications Office (DECCO), headquartered at Scott Air Force Base, manages finances for the Defense Business Operations Fund, Communications Information Services Activity (the Fund) on a daily basis. In FY 1991, we audited the Fund's FY 1991 financial statements. OIG Audit Report No. 92-121, "Defense Industrial Fund-Communications Services Activity Financial Statements for FY 1991," June 30, 1992, recommended accounting adjustments, totaling $112.2 million, to the Fund's general ledger and subsidiary accounts. The adjustments were required to prepare accurate and fair financial statements for FY 1991. The accounting adjustments identified in OIG Audit Report No. 92-121 would have reduced total assets by $26.0 million (6.3 percent) and total liabilities by $49.2 million (20.9 percent) and increased total equity by $23.3 million (13.3 percent) and the net results of operations by $13.7 million (47.8 percent). The detailed FY 1991 audit recommended accounting adjustment are at Enclosure 1.

FY 1991 Audit Adjustments. On March 6, 1992, we advised the Comptroller, Defense Information Systems Agency (Report No. 92-MAM-010), that during the FY 1991 audit we had periodically provided management with proposed adjustments to the fund's general ledger accounts, but that none of the proposed adjustments had been incorporated in the fund's FY 1991 financial statements. We also stated that we had not been provided managements' position on the proposed adjustments and, therefore, we requested the official position on the FY 1991 audit recommended accounting adjustments.

On June 26, 1992, the Deputy Chief Financial Officer, Office of the Comptroller of the Department of Defense, transmitted the financial statements to the Assistant Inspector General for Auditing, stating that the Fund's financial statements included the agreed upon accounting adjustments (Enclosure 2). We verified that the statements included the recommended accounting adjustments. Accordingly, on June 30, 1992, we opined that, with certain unrelated exceptions, the FY 1991 financial statements fairly presented, in all material respects, the Fund's financial position, results of operations, cash flow, and reconciliation to budget for the year then ended in accordance with DoD accounting policies and procedures.

FY 1992 audit results. The accounting adjustments recommended during the FY 1991 audit were generally not recorded in the Fund's general ledger and appropriate subsidiary accounts. As a result, financial statements reflecting financial activity after September 30, 1991, will not fairly present, in all material respects, the Fund's financial position, results of operations, cash flow, and reconciliation to budget for the reported period then ended, in accordance with DoD accounting policies and procedures.

The chart below shows the net adjustments that were recommended during the FY 1991 audit, and Enclosure 1 shows the details of the FY 1991 audit recommended accounting adjustments.

Category	Recommended Adjustments
Assets	($26.0)
Liabilities	($49.2)
Equity	$23.3
Net Income	$13.7

DECCO made only one recommended adjustment which affected assets and equity (Enclosure 1, Notes 1 and 2).

The following examples discuss FY 1991 audit recommended accounting adjustments which, even though agreed to by the Deputy Chief Financial Officer and made to the FY 1991 financial statements, were not made to the DECCO general ledger and subsidiary ledgers.

Assets recorded as expenses. Automated data processing (ADP) equipment, costing $15,000 or more per unit and valued at $3.8 million, was written off as an operating expense at the end of FY 1990. The equipment should have been accounted for as assets and depreciated as required by the DoD Accounting Manual (the Manual), chapter 31, and Title 2, section P40. Without adjustment, the Fund's FY 1992 assets will be understated. Additionally, an adjustment of $1.1 million is needed to record

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the depreciation of the assets. Since the FY 1990 operating expenses had been overstated by the FY 1990 write-off, the equity accounts also needed a $1.1 million adjustment. (OIG Audit Report 92-121, page 10-11).

Unrecorded depreciation. Although required by both the Manual, chapter 31, and Title 2, section D20, depreciation of purchased and contributed equipment was not recorded. Depreciation was not recorded for FYs 1990 and 1991 because the Comptroller, DoD, had directed the Fund manager not to recoup depreciation expenses from customers. Nevertheless, the equipment should have been depreciated without affecting operating costs. An adjustment of $28.3 million was needed to record the depreciation and to reduce the appropriate assets for FYs 1990 and 1991. Although the adjustment was made to the FY 1991 financial statements, it was not made to the general ledger. (OIG Audit Report 92-121, page 11).

Obligations not incurred. Fund personnel recorded Military Interdepartmental Purchase Requests (MIPRS) when the MIPRS were issued rather than upon evidence that the goods or services were received. The Manual, chapter 42, requires that when orders for goods or services are placed, the transaction is to be recorded in the budgetary accounts as an undelivered order until the goods or services are received. Similarly, Title 2, Section A10, provides the liability (accounts payable) should not be recorded until the goods or services are received. Consequently, the September 30, 1991, balance of accounts payable was overstated by $52.1 million. This amount represented a 50-percent overstatement that was corrected in the financial statements but was not adjusted in the general ledger.(OIG Audit Report 92-121, pages 15-16).

Equity understated. Fund equity was understated by $23.3 million due primarily to the effects of other recommended accounting adjustments. For example, although services had not yet been received at the time of the audit, DECCO recorded $37.4 million as an expense for MIPRS issued before FY 1991. We recommended that equity be increased to offset the premature decrease in equity (i.e., expensing of MIPRs) for prior periods.

Operations understated. FY 1991 operations were understated primarily due to recording MIPRs as expenses before valid obligations existed as discussed above. FY 1991 operations were also overstated because the Fund did not record accrued payroll and related expenses at the end of FY 1991.

DECCO position on adjustments. The Deputy Director, Comptroller Directorate, DECCO, told us that most of the recommended adjustments were not made in the Fund's general ledger and subsidiary accounts. The Deputy Director offered several reasons for not making the adjustments.

Generally, the reasons for not making the recommended accounting adjustments were not considered plausible. The adjustments to balance sheet items should be made to record transactions in accordance with generally accepted accounting principles, as prescribed in the Manual in order to prepare fair and accurate financial statements. Both the Fund manager and the Deputy Chief Financial Officer agreed with the need to make the recommended accounting adjustments. (Enclosure 2) In addition, accounting officials at DECCO generally agreed with the proposed adjustments during the FY 1991 audit and stated that the adjustments would be made.

Conclusion. The FY 1991 financial statements transmitted to the Inspector General, DoD, were not supported by recorded transactions in the general ledger. Therefore, Fund financial statements for interim periods after September 30, 1991, will not, in our opinion, fairly present, in all material respects, the Fund's financial position and results of operations. These conditions, if not fully and adequately addressed, could affect the audit opinion on the FY 1992 financial statements.

Status of adjusting entries. We were informed that certain of the recommended adjustments may have been recorded in the general ledger and may be reflected in the Funds records. In order to complete our audit of the FY 1992 financial statements, we need to know the status of your actions on each of the specific adjustments reflected in Enclosure 1. In those cases where you deem the adjustments to be unnecessary or inappropriate, or the amount of the adjustment different from that recommended, your reasons and rationale for your position should be provided.

Request for comments. Your comments on this matter are requested within 30 days of the date of this memorandum. If you have any questions or wish to discuss this condition, please contact Mr. John Donnelly at (703) 692-2899 (DSN 222-2899) or Mr. John Gannon at (703) 692-2906 (DSN 222-2906).

William F. Thomas
Director, Readiness and
Operational Support Directorate

cc: Deputy Chief Financial Officer, Office of the Comptroller of the Department of Defense
Director, Defense Finance And Accounting Service
Director, Defense Information Systems Agency

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RECOMMENDED AUDIT ADJUSTMENTS

I. Assets

Account Number	Account Names	Audit Adjustments Debit	Credit
1102	Cash - Fixed Assets		$27,702,126
1104/1121	Cash - Unliquidated Ops	$27,702,126[1]	
1210	Accts Rec. - US Gov't	216,522	
1250	Accts Rec. - Commercial	51,634	
1526	Contruction in Progress		895,875
1530	Bldgs & Structured Equip	282,900	
1531	Acc. Dep - Bldgs & Structures		42,435
1540	Tools/Equipment - Acquired	192,693	
1541	Acc. Dep - Tool/Equip - Acq.		4,575,717
1560	ADP Equipment Acquired	3,745,208	
1561	Acc. Dep - ADP Equipment		1,142,764
1641	Acc. Dep Tool/Equip Contributed		23,778,757
	Totals	$32,191,083	$58,137,674
	Net Adjustment:		$(25,946,591)

[1] DECCO made an accounting adjustment crediting account number 1102 and debiting account number 1104 for $26.3 million. The adjustment was needed because the purpose for which account 1102 was established (replacement of obsolete equipment) was canceled. We are currently reviewing this adjustment to determine why the remaining $1.4 million ($27.7 less $26.3 million) of the recommended adjustment was not made.

Enclosure 1
Page 1 of 4

RECOMMENDED AUDIT ADJUSTMENTS

I. Liabilities

Account Number	Account Names	Audit Adjustments Debit	Credit
2110	Accts Payable -US Govt	$52,070,288	$ 216,522
2150	Accts Payable- Commercial	895,875	405
2211	Accrued Payroll		335,856
2212	Accrued FEGLI - employer		578
2213	Accrued FEHBA - employer		10,091
2214	Accrued CSRDF - employer		19,432
2215	Accrued FICA - employer		6,349
2221	Accrued Sick Leave		126,271
2230	Accrued Other Expenses		2,954,957
2312	Unearned Rev - Commercial		51,229
	Totals	$52,966,163	$3,721,690
	Net Adjustment:		$(49,244,473)

Enclosure 1
Page 2 of 4

RECOMMENDED AUDIT ADJUSTMENTS

I. Equity

Account Number	Account Names	Audit Adjustments Debit	Audit Adjustments Credit
3120	Liabilities Assumed		$ 107,059
3210	RE - Accumulated Op. Results		23,481,325
3215	RE - Prior Yr Adjustments		86,279,429
3240	Cap Assets - Contributed from	$29,108,420	27,018,675
3260	Cap Assets - Reserved for Dep.	46,755,317	
3270	Cap Assets - Purchases	22,797,874	
3290	Cap Assets - Res. Surcharge	27,702,126[2]	
	Subtotal	$126,363,737	$136,886,488
	Net Income - Adjustment		12,775,130
	Totals	$126,363,737	$149,661,618
	Net Adjustment:		$23,297,881

[2] DECCO made $26.3 million of this recommended adjustment which was related to the recommended adjustment for accounts 1102 and 1104 (see note 1, page 1 of 4)

Enclosure 1
Page 3 of 4

RECOMMENDED AUDIT ADJUSTMENTS

I. Net Income

Account Number	Account Names	Audit Adjustments Debit	Audit Adjustments Credit
4150	Other Commun. Ser-Conus		$ 2,660
5110	AUTODIN 1 Backbone	$ 4,680,000	
5112	Res. Cap Assets-AUTODIN Dep		4,680,000
5120	AUTOVON Backbone	2,342,400	
5132	Res. Cap Assets-AUTOVON Dep		2,342,400
5170	Other Equip/Internal Conuns		15,304
5440	Defense Data Network	7,103,056	
5442	Res. Cap Assets-DDN Dep		7,103,056
5909	MIPR Adjustment		14,615,237
5910	Overhead Cost	1,858,072	
1530	Bldgs & Structures		895,875
	Totals	$15,983,528	$29,654,532
	Net Adjustment:		$13,671,004

Enclosure 1
Page 4 of 4

DEFENSE INFORMATION SYSTEMS AGENCY
DEFENSE COMMERCIAL COMMUNICATIONS OFFICE
SCOTT AIR FORCE BASE, ILLINOIS 62225-6300

IN REPLY
REFER TO: RR

03 MAR 1993

MEMORANDUM FOR INSPECTOR GENERAL
Department of Defense, ATTN: William F. Thomas, Director
Readiness and Operational Support Directorate
400 Army Navy Drive
Arlington, Virginia 22202-2884

SUBJECT: Accounting Adjustments to FY 1991 Financial Statements for the Defense Business Operations Fund, Communications Information Services Activity

Reference: DoDIG Memorandum, Subject: Accounting Adjustments to FY 1991 Financial Statements for the Defense Business Operations Fund, Communications Information Services Activity (Project No 2RE-2015), 1 Feb 93

1. We have carefully reviewed subject memorandum and strongly non-concur with the DoDIG position concerning FY91 adjusting entries. As we have explained and demonstrated to the DoDIG auditors on numerous occasions the accounting adjustments were made within the accounting system. The confusion of the auditors seems to be in two areas. First, what constitutes an accounting system and, second, the use of net adjusting entries. Everything accomplished in these areas by DECCO is in accordance with Generally Acceptable Accounting Principles (GAAP). Details concerning each follows

a. An accounting system is defined as, "The business papers, records, reports, and procedures used by a business in recording transactions and reporting their effects " The accounting system used in FY92 was part mechanized (approx 75%) and part manual (approx 25%) which complies with the definition. However, the mechanized portion of the old accounting system was limited and inefficient in the handling and processing of transactions. That's why it was necessary to have such a large portion of the system being performed manually. All of this to say the old system was labor intensive which is why it was upgraded. The audit team has expressed concern that all the adjusting entries were not made in the mechanized system. That's true, in that part of the adjusting entries were made in the mechanized system and part in the manual system. This was necessary because of the limitations of the old system That doesn't make it wrong -- it's a perfectly acceptable accounting practice

b. In the interest of efficiency we adjusted accounts using "net" entries, a standard accounting practice. For example, if an account required adjustments of $1, $2, and $7 only one accounting entry was recorded for $10 rather than three separate entries This approach is in accordance

with generally accepted accounting principles and validated by a "Big-Six" accounting firm. Proof that the $1 adjustment was made can be shown simply by audit of the financial statements.

2. The FY92 financial statements reflect all adjusting entries resulting from the FY91 Chief Financial Officers (CFO) Act audit. While a detailed discussion of each adjusting entry should not be necessary it may be helpful to put the above comments in perspective through the use of one example, capital assets and associated depreciation. During FY92 a complete physical inventory and valuation of capital assets was completed. Complete and accurate depreciation was calculated IAW DoD Comptroller guidance. These steps were accomplished by an "independent third party" and their workpapers have been made available for DoDIG review. Third party verification is the best validation of correct account balances. Upon completion of the process one entry was made to adjust each type of property to the correct balance. The FY91 CFO Act audit adjustment was a part of that entry.

3. Once again, we non-concur with the assertions made in reference memorandum. Accordingly, we believe this issue should not be a finding in the final audit report. If you disagree, I invite you to visit DECCO so we may discuss and resolve these issues.

DENNIS W. GROH
Director

Copy to: Deputy Chief Financial Officer, Office of the Comptroller of the Department of Defense
Director, Defense Finance & Accounting Service
Director, Defense Information Systems Agency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

FEB 11 1993

MEMORANDUM FOR MR. MARVIN ROUNKLES, COMPTROLLER, DEFENSE COMMERCIAL COMMUNICATIONS OFFICE

SUBJECT: FY 1992 Accounting Adjustments

In reference to our February 9, 1993, telephone conversation concerning our need for more specific information on your FY 1992 accounting adjustments, enclosed (Enclosure 1) are preliminary inquiries on subject adjustments. Please provide me with detailed written responses to the questions by February 23, 1993.

The first group of questions relate to a "System Failure" and consist of 9 entries totaling $ 210.6 million (Enclosure 2). On February 3, 1993, your staff provided those entries to the audit team and told us that the entries were required to be done manually because your computerized accounting system malfunctioned in September, 1992. Your staff also said that the entries were previously provided to unspecified members of the audit team. That assertion is inaccurate. With the exception of one entry relating to the outstanding DECCO-issued Military Interdepartmental Purchase Request balance (entry 6), no entries have been provided to the auditors.

The second group of entries relates to "Yearend Close Out and Conversion to FAMIS," consisting of 13 entries totaling $ 115 million (Enclosure 3). Your staff provided those entries to the audit team on January 12, 1993. On February 3, 1993, your staff said that due to conversion to the new accounting system, they performed a detailed review of supporting documentation for all account balances. The second group of adjustments reflect the differences between the results of your staffs' work and what was reflected on the general ledger as of September 30, 1992.

If the information orally provided by your staff is inaccurate or incomplete or if we have misinterpreted the information, please provide details. We are concerned that significant adjustments have been made to the DECCO books without sufficient explanation or adequate documentation to support the rationale behind particular adjustments. Explanations and documentation may be available, but they have not been provided to the auditors. Your personal assistance is requested in this matter.

If you have any questions concerning this memorandum, please call John Gannon at or John Donnelly at DSN 222-2899.

John Donnelly

John Donnelly
Program Manager

cc:
Director, Defense Commercial Communications Office
Deputy Director, Defense Commercial Communications Office
Chief, Revolving Fund Division, Defense Information Systems Agency
Internal Control Program Manager, Defense Information Systems Agency

Enclosures

SYSTEM FAILURE ADJUSTMENTS. The DECCO accounting department made 9 adjustments totaling $210.6 million.

1. Entries 1 and 5 relate to the payroll cycle and resulted from posting errors and reconciliation to Air Force records. The amounts are relatively immaterial. With the respect to the posting error, please provide us with specifics concerning:

- the posting error, including the initial entry,
- the nature of the error in the initial entry,
- by what means the error was detected, and
- whether supporting documentation is being maintained.

With respect to the reconciliation with Air Force records, please indicate:

- when it was performed, and
- whether the reconciliation is documented.

2. Entries 2 and 3 relate to the capital assets cycle and appear to relate to the work performed by Peat Marwick. The amounts are relatively material. Please:

- state why each of these entries were made,
- differentiate between "CIP" and "AIP", and
- provide the KPMG letter supporting entry 3.

3. Entry 4 is a reclassification of cash. Please state:

- the reason for the reclassification and
- the method of computing the amount.

4. Entries 6 and 8 relate to the disbursements cycle and to MIPRs and accounts payable. The amounts are material. Entry 8 increases commercial payables and decreases Government payables by more than $138 million. Please state:

- the reason for the reclassification, per entry 8, and
- the method of computing the amount.

5. Entries 7 and 9 relate to the equity cycle and concern reclassification to recognize contributed assets (entry 7) and recognition of a contingent liability (entry 9). The amounts are relatively material. Please indicate:

- the basis for entry 7 (that is capitalized leases, etc.) and
- whether there was a corresponding adjustment increasing assets and liabilities.

Enclosure 1
Page 1 of 2

Please provide the specifics as to recognition of the contingent liability.

CONVERSION ADJUSTMENTS. The 13 entries totaled $115 million.

1. (Entries 1 and 2 pertain to Revenue Cycle). DECCO wrote off accounts receivable and advances to retained earnings. Please describe the specific methodology used to compute the writeoffs.

2. (Entries 3, 4, 5, 6, 7, 12, and 13 pertain to capital assets). The adjustments affect accumulated depreciation, data processing equipment, capital assets contributed, and capital assets purchased. Please specify the reasons for the entries and where the supporting documentation is maintained. (that is, DECCO or DISA)

3. (Entries 8, 9, and 11 pertain to the Disbursements Cycle). Entry 8 indicates that payables to commercial vendors were increased by $57 million and were charged directly to retained earnings. Entry 9 shows that DECCO is apparently reclassifying liabilities (other accrued expenses to accounts payable commercial). Item 11 reduces account 3230, and prior period expenses, to account 3210. Please describe the specific reasons for each of the entries and the methodology used in computing the amounts.

Enclosure 1
Page 2 of 2

Adjusting Entries
A/O 30 Sep 92

1. 2221	6,537,055	
2212		6,537,055

CORRECT ERROR IN POSTING OF SEPT 92 PAYROLL;

2 1780	3,136,326.00	
1526		1,005,623.74
1527		2,130,702.26

MOVE ASSET FROM CIP TO AIP

3. 1780	11,142,090.00	
3240		11,142,090.00

RECORD ASSETS IN PROGRESS. SEE LETTER FROM KPMG.

4. 1101	10,068,832.00	
1104		10,068,832.00

REALLOCATE CASH FOR AIP.

5. 2152	6,537,055	
2221		6,537,055

CORRECT ANNUAL LEAVE BALANCE SHOULD AGREE TO LEAVE/COST REPORT.

6. 2152	30,243,707.41	
3210		30,243,707.41

CORRECT MIPRS ORIGINALLY SET UP AS A/P's, SHOULD BE AN OBLIGATION.
(Data received from FAMIS Beginning Balance obligation for issued mipas)

Enclosure 2
Page 1 of 2

7.	3210	3,661,338.00	
	3240		3,661,338.00
RECLASSIFY EQUITY. AMOUNTS SHOULD BE A PART OF ASSETS CAPITALIZED VS. AOR.			
8.	2110	138,514,627.87	
	2150		138,514,627.87
PROPERLY RECORD A/P.P.			
9.	3210	13,800,000	
	2930		13,800,000
RECORD CONTINGENT LIABILITY.			

Enclosure 2
Page 2 of 2

1.	Dr.	3210	$512,655.91
	Cr.	1210	$512,655.91
2.	Dr.	3210	$4,663.32
	Cr.	1460	$4,663.32
3.	Dr.	1541	$29,788.93
	Cr.	3210	$29,788.93
4.	Dr.	1560	$281,277.00
	Cr.	3210	$281,277.00
5.	Dr.	3210	$104,092.07
	Cr.	1561	$104,092.07
6.	Dr.	1660	$1,202,835.00
	Cr.	3210	$1,202,835.00
7.	Dr.	1661	$46,358.99
	Cr.	3210	$46,358.99
8.	Dr.	3210	$57,056,181.13
	Cr.	2150	$57,056,181.13
9.	Dr.	2230	$335,774.71
	Cr.	2150	$335,774.71
10.	Dr.	3220	$29,824,790.00
	Cr.	3210	$29,824,790.00
11.	Dr.	3210	$11,877,620.03
	Cr.	3230	$11,877,620.03
12.	Dr.	3240	$13,554,234.00
	Cr.	3210	$13,554,234.00
13.	Dr.	3210	$206,974.00
	Cr.	3270	$206,974.00

The above entries were posted as a result of year end close out and conversion to Famis.

Enclosure 3

DEFENSE INFORMATION SYSTEMS AGENCY
DEFENSE COMMERCIAL COMMUNICATIONS OFFICE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5300

IN REPLY
REFER TO: RR

2 MAR 1993

MEMORANDUM FOR INSPECTOR GENERAL
ATTN: John Donnelly, Program Manager
400 Army Navy Drive
Arlington, VA 22202-2884

SUBJECT: FY 1992 Accounting Adjustments

Reference: a. DODIG Memo, subject: FY 1992 Accounting Adjustments, dtd 11 Feb 93
b. DISA Letter, subject: DBOF-CISA "DRAFT" Financial Statements, dtd 10 Feb 93

1. There have been 24 FY92 adjusting entries recorded in DBOF-CISA accounting system to date. We have attached a copy of those entries, with individual explanations for your use in conducting the audit. To help track these entries to referenced letters an explanation follows:

a. The first 9 adjusting entries are the entries discussed as "systems failure" in reference a.

b. The tenth through twenty-second adjusting entries are the 13 entires discussed as "yearend close out" in reference a.

c. The twenty-third and twenty-fourth adjusting entires are to cash and accounts payable as discussed in reference b.

2. The explanations included with the adjusting entries should answer your questions. Explanations in the third, fourth and fifth adjusting entries refer to other documents. For your convenience we have attached a copy of those documents. If you need any further information please advise.

3. While, at first glance, the dollar amount ($403M) of the adjusting entires appears high an analysis reflects nothing beyond the routine accounting process. Details of analysis follows:

a. Adjusting entries made to "reclassify" account balances to improve understanding of the financial statements -- $194M. Net effect on the financial statements $0

b. Adjusting entries made as a result of "inventory" of correct balances on 30 Sep 92 – $88M. Process continued beyond 30 Sep 92 making adjusting entry process necessary and a normal step in the accounting process.

c. A $30M adjusting entry to change MIPR accounting was later reversed -- $60M; Net effect on financial statements -- $0.

d. Other adjusting entries included:

Contingent Liability	$14M
Cash (see ref b)	$47M

4. As an added note, all necessary financial records have been made available to the DoDIG auditors for the purpose of expressing an opinion on the financial statements. If you have any additional questions please give me a call.

3 Enclosures a/s

M. L. ROUNKLES
Deputy Director
Comptroller Directorate

Copy to: Chief, Revolving Fund Division, (ATTN: Dave Rapp) DISA
Internal Control Program Manager (ATTN: Phil Lavietes), DISA

DBOF-CISA
FY92 ADJUSTING ENTRIES

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Accrued Annual Leave	2221	65,370.55	
	Accrued FEGLI-Emplr	2212		65,370.55
	Correct error in posting of Sep 92 Payroll. The original entry was posted on JV 92-904. The dollar amount was posted to the wrong general ledger account. Should have been 2221 vs 2212. Error was detected by review of general ledger.			
30 Sep 92	Asset in Progress	1780	3,136,326.00	
	Const In Prog-Unpd	1526		1,005,623.74
	Const In Prog-Paid	1527		2,130,702.26
	To reclassify asset from Construction in Progress (CIP) to Asset in Progress (AIP). The AIP represents the dollars associated with the FAMIS accounting system implementation The accounting system better meets the definition of Assets in Progress.			
30 Sep 92	Asset in Progress	1780	11,142,090.00	
	Capital Assets-Contr From	3240		11,142,090.00
	Record Assets in Progress for ECP-28 Reference KPMG letter 30 Sep 92.			
30 Sep 92	Cash-Assets in Progress	1101	10,068,832.00	
	Cash-Unliquidated/Opns	1104		10,068,832.00
	To reclassify cash from operating funds to cash reserve for ECP-28. The software has not been accepted by DISA as of 30 Sep 92. Reference KPMG letter 30 Sep 92.			

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Accts Pay, Comm	2152	65,370.55	
	Accrued Annual Lv	2221		65,370.55
	Correct annual leave balance to agree to Leave/Cost Report. The Air Force reconciliation was completed in Oct 92 for accounting period ending 30 Sep 92. Entry was posted on journal voucher 92-935 This adjustment was posted as a result of the correction in #1 above.			
30 Sep 92	Accts Pay, Comm	2152	30,243,707.41	
	Ret Earn-Accum Oper Results	3210		30,243,707.41
	To record DECCO issued military Interdepartmental Purchase Requests (MIPRs) per recommendation in DoDIG Report No 92-121, dtd 30 Jun 92.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	3,661,338.00	
	Capital Assets-Contr From	3240		3,661,338.00
	Adjust contributed fixed assets to the proper balance.			
30 Sep 92	Accounts Payable-US Govt	2110	138,514,627.89	
	Accounts Payable-Comm	2150		138,514,627.89
	Reclassify accounts payable from government to commercial vendors. Based on research conducted by DISA program managers, these payables were originally posted to government sub-accounts. There are properly classified as commercial payables.			

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Ret Earn-Accum Oper Results	3210	13,800,000.00	
	Contingent Liability	2920		13,800,000.00
	Record contingent liability. See DISA/CI letter, 5 Nov 92, subject: Funding for the Philippines withdrawal.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	512,655.91	
	Accts Receivable-US Govt	1210		512,655.91
	Detail analysis of subsidiary accounts receivable files support the ending accounts receivable balance and this entry.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	4,663.32	
	Advances to Govt Agencies	1460		4,663.32
	Analysis of FTS2000 advances to GSA indicates a correct balance of $2,543,801.			
30 Sep 92	Accum Depr Tools/Equip Acq	1541	29,788.93	
	Ret Earn-Accum Oper Results	3210		29,788.93
	Adjustment made as a result of more accurate asset valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Data Processing Equip Acq	1560	281,277.00	
	Ret Earn-Accum Oper Results	3210		281,277.00
	Adjustment made as a result of more accurate valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	104,092.07	
	Accum Depr Data Pro Eq Acq	1561		104,092.07
	Adjustment made as a result of more accurate valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			
30 Sep 92	Data Process Equip Contributed	1660	1,202,835.00	
	Ret Earn-Accum Oper Results	3210		1,202,835.00
	Adjustment made as a result of more accurate valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			
30 Sep 92	Accum Depr Data Pro Eq Contr	1661	46,358.99	
	Ret Earn-Accum Oper Results	3210		46,358.99
	Adjustment made as a result of more accurate valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Capital Assets-Contr From	3240	13,554,234.00	
	Ret Earn-Accum Oper Results	3210		13,554,234.00
	Adjustment made as a result of more accurate asset valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	206,974.00	
	Capital Assets-Purch	3270		206,974.00
	Adjustment made as a result of more accurate asset valuation amounts received after 30 Sep 92. These revisions are based on a validated inventory list provided and reviewed by contractor.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	46,644,056.79	
	Cash-Unliquidated/Opn	1104		46,644,056.79
	To adjust fund balance with Treasury (Cash) to reflect DoD(C) guidance.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	30,243,707.41	
	Accts Payable, Comm	2152		30,243,707.41
	To reverse the sixth adjusting entry. DECCO issued MIPRs are properly recorded as commitments in the financial records			

DATE	ACCOUNT	ACCT #	DEBIT	CREDIT
30 Sep 92	Ret Earn-Accum Oper Res	3210	57,056,181.13	
	Accts Payable-Comm	2150		57,056,181.13
	Detailed analysis of subsidiary accounts payable-commercial files support the ending accounts payable balance and this entry.			
30 Sep 92	Other Accrued Exp	2230	335,774.71	
	Accts Payable-Comm	2150		335,774.71
	Detailed analysis of subsidiary accounts payable-commercial files support the ending accounts payable balance and this entry.			
30 Sep 92	Ret Earn-Pr Yr Rev Adj	3220	29,824,790.00	
	Ret Earn-Accum Oper Results	3210		29,824,790.00
	Reclassified equity account into Accumulated Operating Results. Prior period sales were adjusted to a zero balance to reflect new equity account structure.			
30 Sep 92	Ret Earn-Accum Oper Results	3210	11,877,620.03	
	Ret Earn-Pr Yr Exp Adj	3230		11,877,620.03
	Reclassified equity account into Accumulated Operating Results. Prior period expenses were adjusted to a zero balance to reflect new equity account structure.			

INTEROFFICE MEMORANDUM

TO: RR/DECCO (Mr. M. Rounkles)

FROM: CI

DATE: NOV 5 1992

SUBJECT: Funding for the Philippines Withdrawal

Preparer: J.Lazur/CI/2x2142/jm

1. The withdrawal of US Forces from the Philippines will necessitate the cancellation of the MIDPAC contract involving the Cubi Point installation, a US Navy site. The estimated BTL is approximately $6.8M. We need to reserve CISA funds for this contingency. There may be unplanned costs in the Philippines for other programs as well, i.e. $2M (DDN), $3M (DSN) and $2M (other) for a total of $13.8M to set aside.

2. Separately, there are reports that Congress has allocated money to the Navy for the Philippines evacuation and we would like to determine whether our costs are appropriate charges to this account. We are looking into this with DISA PAC and DECCO, and would like to consolidate any such requests to the Navy. Please let me know if you hear anything in this regard.

David R Rapp

DAVID R. RAPP
Chief,
Revolving Fund Division

September 30, 1992

TO: Marvin Rounkles, DECCO

FR: KPMG Peat Marwick

RE: Asset ~~Construction~~ in Progress Account

The following entry should be reflected in the ASSETS IN PROGRESS ~~Construction in~~ Progress account at DECCO as of 09/30/92:

1780 AIP Type "P" 1720 ~~CIP~~		$11,142,090	
2300	Expense - current year		1,073,258
	Accumulated operating results - beginning of year		10,068,832

This entry resolves the "ECP-28" issue that was discussed at the meeting held at DISA HQ 09/01/92.

Reclass ECP-28 expenses to Asset ~~construction~~ in progress. Software has not been accepted by DISA as of 09/30/92. See below for detail of calculation:

HC1013-9-00037	$29,632,028
Prior FY92 expenditures	(7,964,277)
FY92 expenditures	(1,073,258)
	20,594,493
HC1013-9-00029	$ 2,011,974
Prior FY92 expenditures	(1,933,365)
	78,609
HC1013-9-00015	$ 262,000
Prior FY92 expenditures	(171,190)
	90,810

Asset In Progress was set up as a contributed asset - no expense had been previously recorded because payments were made from 1990 Procurement MIPR. Therefore, credit entry ~~to~~ was to 3240 Contributed From account to record asset contribution.

2 Nov 92
E. [illegible]

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

MAR 24 1993

MEMORANDUM FOR MR. MARVIN ROUNKLES, COMPTROLLER, DEFENSE COMMERCIAL COMMUNICATIONS OFFICE

Subject: Defense Commercial Communications Office March 2, 1993 Memorandum For Inspector General Concerning FY 1992 Accounting Adjustments

We are requesting additional information on a reclassification of $138.5 million of payables, confirmation of an increase in commercial payables of $57 million, and your position on the exclusion of $5.8 million in depreciation from the Cash Flow Statement, an issue that was not addressed by your memorandum.

Reclassification of payables. Documentation and rationale supporting entry number 8, which is a $138.5 million reclassification of accounts payable, is required. Your March 2, 1993, memorandum (Enclosure) stated that the amount was reclassified from government to commercial vendors to correct erroneous information previously furnished by DISA program managers. On March 13, 1993, Ms. Monica Hellman of your staff was not able to provide the auditors with documentation or rationale explaining the nature of the error(s) made by DISA program managers. She stated that the adjustment was required to reconcile recorded balances.

Increase in commercial payables. Ms. Hellman stated that there was no specific documentation supporting entry number 17, which increased accounts payable to vendors by $57 million. She stated that after converting the supporting accounts payable detail file to the upgraded accounting system, the accounting department found that the sum of the detailed records exceeded the recorded amount by $57 million, thus necessitating the entry. Please confirm or, if needed, clarify this statement.

Depreciation. We noted that the revised draft financial statements, Statement Of Cash Flow, does not include an entry on line 9, Depreciation and Amortization, even though the Statement Of Operations And Changes In Net Position, line 11, "Depreciation," includes an entry of $5,638,268 (Note: Pam Smith, one of the DoD IG auditors, had discussed this with your staff, who agreed that the correct depreciation amount was $5,788,268). Please advise as to whether the omission of depreciation on the Cash Flow Statement was an oversight or provide the rationale for its omission.

Your expeditious response to these issues would be appreciated so that we can determine whether additional audit procedures are needed to reach an opinion on the financial statements. If you have and questions concerning this memorandum, please call John Donnelly at DSN 222-2899 or Mary Lu Ugone at DSN 222-2230.

John M. Donnelly
John M. Donnelly
Project Manager

cc:
Director, Defense Commercial Communications Office
Deputy Director, Defense Commercial Communications Office
Chief, Revolving Fund Division, Defense Information Systems Agency
Internal Control Program Manager, Defense Information Systems Agency

Enclosure

DEFENSE INFORMATION SYSTEMS AGENCY
DEFENSE COMMERCIAL COMMUNICATIONS OFFICE
SCOTT AIR FORCE BASE, ILLINOIS 62225-8300

IN REPLY
REFER TO: RR

5 APR 1993

MEMORANDUM FOR INSPECTOR GENERAL
ATTN: John Donnelly, Program Manager
400 Army Navy Drive
Arlington, VA 22202-2884

SUBJECT: Defense Commercial Communications Office March 2, 1993 Memorandum for Inspector General Concerning FY1992 Accounting Adjustments

Reference: (a) DECCO Memorandum for Record, Subject: DECCO Adjusting Entries Effecting Accounts Payable, dtd 11 Mar 93
(b) DECCO Memorandum for Inspector General, Subject: FY 1992 Accounting Adjustments, dtd 2 Mar 93
(c) Inspector General Memorandum, Subject: FY 1992 Accounting Adjustments, dtd 11 Feb 93
(d) DoDIG Memorandum for Record, Subject: DECCO Adjusting Entries Effecting Accounts Payable, dtd 11 Mar 93

1. The following information is furnished per your request in reference d and responds to the conclusions offered in reference c:

a. Reclassification of payables.

(1) An analysis of accounts payable subsidiary accounts was completed during FY92. This analysis included determining if the payable was to a commercial vendor or a government agency. For example AT&T, MCI, Sprint, etc., are commercial vendors while Department of Navy, Corp of Engineers, etc., are governmental agencies. Results of the analysis were then compared with control accounts and appropriate adjustments were made.

(2) The purpose of footnotes to the financial statements is to add clarity and understanding to the casual reader of the financial statements. There is no generally accepted accounting principal that indicates reclassification entries should be footnoted. Accounts Payable before the entry was $312M and after the entry was $312M. Regardless, reference c concludes reclassification "should be disclosed in a footnote." There is no logical basis for your conclusion. Such a footnote would only serve to confuse the reader of the statements and serve no positive purpose. Recommend you reconsider your position and discuss alternatives with us.

b. Increase in commercial payables.

(1) During FY92 a detailed analysis of accounts payable was completed that included comparing subsidiary accounts with control accounts. As a result an entry was recorded to bring the control account into balance. Detailed schedules supporting the accounts payable balance of $312,553,198 have been provided. There should be no better substantiation of the financial statement balance in Accounts Payable than this "inventory" of accounts.

(2) Internal controls should provide reasonable assurance that misstatements, of material amounts, to the principal statements would be prevented or detected at the end of the period or during the period. DECCO internal controls provided such assurances. Clearly the reconciliation of control and subsidiary accounts assured there was no misstatement of the financial statements There is no evidence to support your conclusion in reference c that these steps "definitely indicates an internal control weakness". A reasonable person reviewing the facts would conclude a strong internal review program exists. It worked! Again, suggest you reconsider your position and discuss alternatives with us.

c. Depreciation. The "draft" Statement of Cash Flow included depreciation expense in line 5, Decrease in Assets. This was accomplished so the reader of the statements could reasonable "compare" FY92 dollar amounts with the FY91 dollar amounts. It is our understanding the DoD Chief Financial Officer changed the requirement to include FY91 amounts, therefore, eliminating the need for consistency required for comparative statements. Therefore, we believe the final statements prepared/provided by OSD will include Depreciation Expense in line 9.

2. I am very concerned about the constant flow of memorandums related to this audit. For example, this is the fifth memorandum on explanations of FY92 adjusting entries. Review of a basic accounting textbook indicates, "the words *adjusting entries* before the first adjusting entry....is sufficient to explain the entries." Regardless, references a. and b. were exchanged. Now we receive reference c. and d. which state, in effect, "explain your explanations." Suggest Mr. John Gannon and I get together and discuss options designed to limit memorandum writing.

3. I am available to discuss any of the above comments. Please give me a call if you have any questions.

M L. ROUNKLES
Deputy Director
Comptroller Directorate

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C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
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